IN THE

Supreme Court of the United States

OCTOBER TERM, 1964

No. 20

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife

and

RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners

v.

THYS COMPANY, *Respondent*

BRIEF OF RESPONDENT

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INDEX

TABLE OF CASES

Page

TEXTS CITED

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STATEMENT

This is *not* a patent infringement suit nor a government antitrust suit, as petitioners would seem to believe. These are two consolidated state court actions at law to recover money judgments for agreed unpaid balances owing on written patent license-royalty contracts, which were voluntarily entered into by the parties, for the use and/or the right to use certain portable hop picking machines and certain existing and future patent rights.

The Brulotte contract was executed on August 10, 1948, when he purchased a used portable hop picking machine from Yakima Chief Ranches, Inc., which was then changing over to the newer, larger, and keenly competitive sta-

tionary hop picking machines. It expired at the completion of the 1958 harvest season. (Ex. 1; R. 28, 70-73)

The Charvet contract was executed on January 31, 1951, when he likewise purchased a used machine from one Oliver Champoux. It expired at the completion of the 1960 harvest season. (Ex. 3; R. 33, 78-81) Both petitioners voluntarily paid the agreed royalties several years, and then refused to do so.

Admittedly during several years each of the petitioners hired certain owners of competitive stationary machines to pick either all or a substantial portion of their hops. (R. 30, 32, 35, 36) Respondent has never had nor sought any monopoly of hop picking machines, nor engaged in any suppression of competition, and there is no evidence that it has done so.

In fact, as indicated by the foregoing facts, the competition of stationary machines (which remain in the farm building, to which the cut hop vines are hauled by truck) has been so terrific that it has not been feasible for respondent or anyone else to manufacture or sell a single new portable machine (which is towed through the hop field) since 1947. (R. 39-42, 53-56, 70)

Mr. Edward Thys, an inventor and the president of respondent Thys Company, spent a tremendous amount of time and work in extensive research, development and expirimentation on this problem commencing in 1935. As a result from time to time respondent became the owner and holder of 19 patents on hop picking machines and improvements thereof. (Ex. 1-26; R 36-39, 48, 56, 64, 65, 70)

It is a well known fact, of which the courts can take judicial notice, that farmers require a tremendous amount of agricultural financing, and in fact many millions of dollars are needed for that purpose annually from various government loan agencies. Consequently it was financially impracticable for the hop farmers to pay cash in full when the machines were purchased. Therefore this plan was

adopted — pursuant to legal principles which were then at least well recognized — that the purchaser paid at or before delivery of the machine the charge of Lindeman Power Equipment Company of Yakima, Washington, for the manufacture of the machine; and the payment of the patent royalties or additional compensation of respondent for the right to use these patent rights was spread out over a uniform period of 17 years from the date of original delivery of the machine. This (1) was a mutually convenient payment method and was extremely desirable and beneficial to the hop farmers as a credit financing arrangement, because it gave them additional time in which to make full payment of the agreed royalties out of their savings and economies in labor costs in the use of the machines, as contrasted with the former more expensive hand picking method — especially during World War II when hand pickers were not available —; and also (2) it avoided unfair discrimination as between the machine purchasers in different years by providing a uniform payment period for all, irrespective of the date of purchase. This substantially reduced the amount which otherwise would have been payable annually by the machine purchasers. No interest was charged prior to the annual royalty maturity dates. (R. 42, 43, 56, 64-66)

Originally the agreed royalty was $5.00 per bale for a 17-year period, with a $500.00 annual minimum. However, subsequently after the machines met with a certain amount of commercial success respondent decided to voluntarily make certain concessions to the machine purchasers. This could have been done by reducing the royalty payment period to less than 17 years. However, the other alternative was adopted of reducing the amount of annual royalty payment from $5.00 to $3.33-⅓ per bale (200 pounds of dried hops; $3.00 if paid by October 15th) with a minimum annual royalty of $500.00 plus 4 per cent state sales tax, for the same uniform period of 17 years from date of delivery. This was preferable and beneficial to the hop farmers because it gave them a longer period of time in which to make the payments, with a smaller re-

duced amount payable each year. (R. 42, 43, 50, 65, 66)

At various times a considerable number of machine purchasers have urgently requested extensions of time so as to postpone further the due dates of the agreed royalties until after the expiration of the original agreed royalty period. In all such cases, where justified by the circumstances, these farmers' requests for such extensions have been agreed to by respondent. (R. 53, 66)

Admittedly there has never been any attempted or actual interference by respondent or anyone else with the continued use of the machines by petitioners or other purchasers nor any attempt to exclude them from the continued use of the machines or the patented inventions. (R. 67)

When these contracts were entered into, respondent held 12 hop picking machine patents, all of which, as shown on page 6 of petitioners' brief, were plainly listed on the face of the contract by patent number, "*date of issue*", and nature of the invention. Petitioners and the other machine purchasers presumptively knew that each patent legally expired 17 years after such respective dates of issue. Five of the listed patents were issued in 1940 and expired in 1957. The last listed patent, No. 2,336,280 on "hop cluster stemmer" was issued on December 7, 1943, and *did not expire until December 7, 1960.* This, of course, *was subsequent* to the expiration of the royalty period under both of these contracts. (Ex. 1, 3, 16; R. 56, 57, 70-81)

The contracts also licensed "Other Patents Pending". Respondent had three other patent applications pending when these contracts were executed, on which patents were subsequently issued. These were Ex. 22, No. 2,559,-080 issued on June 3, 1952; Ex. 23, No. 2,448,063 issued on August 31, 1948; and Ex. 24, No. 2,620,064 issued on December 2, 1952. In addition thereto four other patents on hop picking machines and accessories and improve-

ments thereto were subsequently applied for and issued to respondent. These included, among others, Ex. 25, No. 2,647,626 issued on August 4, 1953 and Ex. 26, No. 2,764,-163 issued on September 25, 1956. Of course, *none of these subsequently issued patents has yet expired*, and all of them still remain in full force and effect. At least 7 of respondent's 12 original listed patents were actually incorporated in petitioners' machines. All of these subsequently issued patents were incorporated in petitioners' and other similar machines or were readily available and suitable for that purpose as accessories and improvements thereof. (Ex. 22-26; R. 47-52, 56-64, 68, 69)

Respondent listed and licensed in the contracts all of its patents then issued and thereafter to be issued so that, in addition to those actually incorporated in the machines, (1) the same would be available for subsequent additions, accessories and improvements to the machines, such as, for example, supplementary hop cleaning equipment, and also (2) so as to avoid any possible danger of future claims of patent infringement on the part of anyone — and no such claim has ever been made. (R. 64)

It is undisputed that petitioners never sought or requested a license as to part but not all of the Thys patents listed in the contracts. Thys never insisted that a license be accepted as to all or none of the patents. Thys never refused to grant a license under any one or more of the patents to anyone who refused to take a license under all of them. Thys was merely licensing the right to use all of his existing and future patent rights, as well as a particular machine, and without additional charge included all of the patents he had, irrespective of whether or not they were actually used or incorporated in the machine at that particular time. No additional royalty charge whatever was made by reason of the inclusion thereof in the contracts. (R. 46, 64)

The trial court found *"the plaintiff was not guilty of any misuse of its patent rights"*. (R. 96, par. 7) As stated in

footnote 8 on page 7 of petitioners' brief "*The findings of fact are to be accepted as correct*". It was also so stated in the State Supreme Court opinion. (R. 108)

The issues herein arise solely from the affirmative defenses pleaded by the defendants petitioners as subsequent afterthought trial amendments to their answers. (R. 21-26) Both the trial court and the State Supreme Court by unanimous departmental opinion correctly held that petitioners had failed to sustain their burden of proof as to these affirmative defenses, and that respondent was therefore entitled to recover judgment against them. (R. 82-116)

However, for each year subsequent to 1956 respondent in each case recovered only the agreed annual minimum royalty of $500.00 plus tax. (R. 97-104).

SUMMARY OF ARGUMENT

1.

The undisputed facts do not bring this case within the alleged legal principle contended for by the petitioners, even if that were to be the law, which we deny. *These royalty contracts covered numerous patents which did not expire until subsequent to the expiration of the royalty contracts.* Having accepted the benefits of a reduced royalty for a 17-year period, as distinguished from the same royalty for a shorter period, the machine purchasers are now precluded and estopped from denying liability for the royalties for the agreed 17-year royalty period. Petitioners are in effect seeking unwarranted judicial legislation of an *ex post facto* nature, because all of the cases relied upon by them were decided long after these contracts were entered into, and principally after the contracts expired, whereas at the time the contracts were executed the legal authorities were unanimous that such contracts are valid.

Consequently the legal question argued by petitioners should not be reached, and on these facts the writ should be dismissed as improvidently granted or the judgments should be affirmed.

2.

Respondent has not made any misuse of patents, and petitioners have wholly failed to sustain their burden of proof as to these affirmative defenses. This royalty arrangement was entirely lawful and proper. *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, 339 U. S. 827, 94 L. Ed. 1312, 70 S. Ct. 894 (1950).

The great weight of authority and the better reasoning support our position that, as held by the lower courts, a royalty contract executed while the patents are in effect is legally valid, although the time for payment of a portion of the royalties is extended until after the expiration of the patents. This is not against public policy, and consequently freedom of contract in this respect, which does not violate any state law, should be permitted and encouraged.

3.

The patent misuse dictrine is a specific application of the "*unclean hands*" principle and is therefore applicable only in *equity actions*. The same does not constitute a defense to a law action of this nature merely to recover a money judgment on a written royalty contract.

4.

There is here no violation by respondent of the antitrust laws. There is no monopoly or attempted monopoly of hop picking machines nor any suppression of competition nor unreasonable restraint of trade. Certiorari was denied as to question 3 in the petition. The "tie-in" cases have no application under the undisputed facts and are clearly distinguishable.

5.

The cases cited by petitioners (with a single possible exception of *Ar-Tik*) are not suits of this nature to recover

patent royalties, but are patent infringement injunction suits or government antitrust suits. The same are therefore clearly distinguishable and not applicable to this case.

6.

Respondent never enjoined, prevented, nor interfered with the actual use of any invention covered by an expired patent, nor attempted to do so. Consequently there was no violation of public policy as indicated in *Scott* and other similar cases. Public policy therefore requires freedom of contract concerning a mutually convenient financing arrangement extending the time of payment of the agreed royalties.

ARGUMENT

A. Because of the Special Facts of this case the Writ should be dismissed or the judgments affirmed.

Petitioners' position is completely without foundation both on the facts and the law. We first respectfully submit that because of the special undisputed facts hereinabove summarized this Court should not even reach for decision the legal uestion argued by petitioners. The writ of certiorari should therefore be dismissed as improvidently granted, or in any event for that reason the judgment should be affirmed. The facts here do not bring the case within the alleged legal principle contended for by petitioners, even if that were to be the law, as we contend it should not.

The last of the 12 patents specifically listed in this license-royalty contract, namely No. 2,336,280 on "hop cluster stemmer" was issued on December 7, 1943, and therefore of course did not expire until December 7, 1960. (Ex. 1, 3; R. 70-81) Obviously this was subsequent to the expiration of both of these royalty contracts.

Also the contracts licensed "Other Patents Pending". At that time respondent had three patent applications

pending, on which patents were subsequently issued. Moreover respondent subsequently applied for and obtained the issuance of four additional patents on hop picking machines, accessories and improvements. All of these patented inventions *were either incorporated and embodied in petitioners' machines or were readily available and suitable for that purpose. None of these seven patents has yet expired.*

Furthermore, the original agreed royalty was $5.00 per bale. In making a subsequent concession to the macine purchasers respondent could either have (1) shortened the royalty period or (2) reduced the amount of the royalty payable annually. It chose the latter alternative, because this was more beneficial to the machine users, as it gave them a longer time in which to complete the royalty payments and it reduced the amount payable annually to $3.33-1/3 per bale, with a $500.00 annual minimum royalty, plus state sales tax. This was a practicable and mutually convenient credit financing arrangement as to the royalties, which facilitated agricultural financing and was directly advantageous to the hop farmers. Certainly petitioners and the other machine purchasers, after having accepted the benefits of this arrangement long prior to the expiration of these patents, are now precluded and estopped from denying liability thereunder.

This mutually convenient payment method was definitely advantageous and beneficial to the hop farmers because by extending and spreading out the payment period to 17 years it had the effect of reducing the amount which otherwise they would have had to pay each year. Otherwise for many hop farmers the expense would have been prohibitive unless spread out over as lengthy a period as 17 years. This enabled them to pay the royalties out of savings and economies in machine operation as contrasted to the former hand picking method. As a matter of fact because of their financial incapacity numerous machine purchasers urgently requested extensions of time for payment of the royalties after the expiration of the 17 year

period, which requests were customarily granted by respondent. None of them ever made the slightest objection to this payment arrangement until after the 17 years had expired and they had defaulted in their agreed payments. Also the uniform period of 17 years for such payments was necessary in order to prevent unfair and inequitable discrimination against those who helped pioneer the project by purchasing such machines during the earlier years.

This was a licensing arrangement with petitioners as to one single definite known portable hop picking machine together with the rights to use thereon any of respondent's existing and subsequent patented inventions as to accessories, additions and improvements thereto. Petitioners knew what they wanted, and that they certainly received. Admittedly there has been no subsequent interference whatever by respondent or anyone olse with their continued use of the machines. Obviously in this situation involving such a machine it would not have been practicable to reduce the royalty as some of the component patents expired.

As hereinabove stated, for each year subsequent to 1956 – and the principal patents had not yet then expired – respondent recovered from each petitioner nothing whatever in excess of the *agreed annual minimum royalty* of $500.00 plus tax. This minimum royalty had no relationship whatever to whether or not there was any *actual use* of the patented inventions during those years nor the extent thereof.

Respondent entered into these contracts with petitioners and others in reliance upon the legal authorities which then, at least, uniformly held that such contracts are valid. All of the cases relied upon by petitioners were decided long afterwards. In fact most of those cases were decided subsequent to the expiration of these contracts.

We respectfully submit that what petitioners are actually seeking here would be unwarranted judicial legislation of

an *ex post facto* nature, holding for the first time by an authoritative Court as to the Pacific Coast States, that such contracts would not be enforceable. California and Washington, where these contracts were made and to be performed, in line with the authorities generally, have held the law to be in accord with our contentions.

Certainly a reversal of these judgments under these facts would be a gross miscarriage of justice. No contention is or can be made that these royalties are unfair, excessive or unreasonable. No fraud, duress, or mistake is claimed. The contracts were voluntarily entered into by both parties. Under these circumstances respondent should not now be punished by being denied access to the courts for having been a good Samaritan in its dealings with these hop farmers, needing assistance in financing the deferred payment of their just contractual obligations.

In the very recent case of *Simpson v. Union Oil Co.*, U.S. 12 L. Ed. 2d 98, 107, 84 S. Ct. 1051, (April, 1964) Justice Douglas, speaking for this Court said:

> "We reserve the question whether, *when all of the facts are known, there may be any equities that would warrant only prospective application* in damage suits of the rule governing price fixing by the 'consignment' device which we announce today". (All emphasis is supplied, unless otherwise noted.)

Certainly under the facts of the instant case *there are such equities here that would warrant only prospective application.*

In *Fisher Manufacturing Co. v. M. Witmark & Sons*, 318 U.S. 643, 659, 87 L. Ed. 1055, 1065, 63 S. Ct. 773, Justice Frankfurter, speaking for this Court said:

> "The available evidence indicates, therefore, that renewal interests of authors *have been regarded* as assignable both before and after the Copyright Act of

> 1909. *To hold at this late date* that, as a matter of law, such interests are not assignable would be to reject all relevant aids to construction."

Certainly if the law as heretofore generally recognized on this subject is now at this late date to be suddenly changed judicially by overruling numerous previous authorities, we respectfully submit that such holding, if any, should be given only a prospective effect and not a retroactive *ex post facto* effect. *Great Northern Railway Co. v. Sunburst Oil and Refining Co.*, 287 U.S. 358, 77 L. Ed. 360, 53 S. Ct. 145, 85 A.L.R. 254; *Rowan v. Runnels*, 46 U.S. 158, 5 How. 134, 12 L. Ed. 85; *State ex rel State Finance Committee v. Martin*, 62 Wn. 2d 645, 384 P. 2d 833, and cases cited; *Ohio Life Ins. & Trust Co. v. Debolt*, 57 U.S. 442, 16 How. 416, 14 L. Ed. 997.

In the *Debolt* case this Court said:

> "And the sound and true rule is, that if the contract when made was valid by the laws of the State, as then expounded by all the departments of its government, and administered in its courts of justice, its validity and obligation cannot be impaired by any subsequent act of the legislature of the State, or decision of its courts, altering the construction of the law."

See also as to "retroactive hardship": *Lilly v. Commissioner*, 343 U.S. 90, 96 L. Ed. 769, 72 S. Ct. 497, 27 A.L.R. 2d 492.

That this Court may take judicial notice of such well known facts of common knowledge as the urgent need for agricultural financing, see the concurring opinion of Justice Harlan in *Garner vs. Louisiana*, 368 U.S. 157, 195, 7 L. Ed. 2d 207, 232, 82 S. Ct. 248, and cases there cited.

The well settled principle as to estoppel by acceptance of benefits is stated as follows in 19 *Am. Jur.* 682, sec. 64:

"Estoppel is frequently based upon the acceptance and retention by one having knowledge or notice of the facts of benefits from a transaction, contract, instrument, regulation, or statute which he might have rejected or contested. This doctrine is obviously a branch of the rule against assuming inconsistent positions, and it has been said that such cases are referable, when no fraud either actual or constructive is involved, to the principles of election or ratification rather than to those of equitable estoppel. The result produced, however, is clearly the same and the distinction is not usually made. Such estoppel operates to prevent the party thus benefited from questioning the validity and effectiveness of the matter or transaction in so far as it imposes a liability or restriction upon him, or, in other words, it precludes one who accepts the benefits from repudiating the accompanying or resulting obligation. It finds application in many different fields and under a wide variety of circumstances . . . It is also applied . . . to prevent those who have voluntarily become obligated upon a bond and thereby procured a benefit for themselves or for another from questioning its validity after a breach of its condition has occurred."

See also the same effect: *Magee v. United States,* 282 U.S. 432, 75 L. Ed. 442, 51 S. Ct. 195; *Frost v. Corporation Commission,* 278 U.S. 515, 73 L. Ed. 482, 49 S. Ct. 235; *Exchange Trust Co. v. Drainage Dist.*, 278 U.S. 421, 73 L. Ed. 436, 49 S. Ct. 181; *Buck v. Kuykendall,* 267 U.S. 307, 69 L. Ed. 623, 45 S. Ct. 324, 38 A.L.R. 286; *George v. Tate,* 102 U.S. 564, 26 L. Ed. 232; *Daniels v. Tearney,* 102 U.S. 415, 26 L. Ed. 187; *Bankers Trust Co. v. Pacific Employees Ins. Co.,* (C.A. 9) 282 F. 2d 106, cert. den. 368 U.S. 822, 7 L. Ed. 2d 27, 82 S. Ct. 41.

The writ should therefore be dismissed as improvidently granted. *Black v. Cutter Laboratories,* 351 U.S. 292, 100 L. Ed. 1188, 76 S. Ct. 824; *Rice v. Sioux City Memorial Park Cemetery,* 349 U.S. 70, 99 L. Ed. 897, 75 S. Ct. 614;

Layne v. Western Well Works, Inc., 261 U.S. 387, 393, 67 L. Ed. 712, 43 S. Ct. 422.

B. The Licensed Patents have not been misused and such Royalty Contracts are valid.

Moreover petitioners' contention is entirely unsound as a matter of law. Petitioners have wholly failed to sustain their burden of proof as to these afterthought trial amendment affirmative defenses. Respondent has not been guilty of misuse of its patents. As held by both lower courts herein, this royalty arrangement was entirely lawful and proper.

The great weight of authority and the better reasoning support our position that a royalty contract executed while the patents are in effect is legally valid, binding and enforceable although the time for payment of the latter portion of the royalties is extended until after the expiration of the patents, for mutual convenience and for practical financing purposes for the benefit of both parties. This is not against public policy. There is no actual or attempted interference with the subsequent use, either by petitioners or others, of any expired patent which is in the public domain. Such contract is not in violation of any state law, particularly in California or Washington. Consequently under these circumstances public policy is best promoted by allowing freedom of contract by the voluntary acts and agreements of the parties, there being no fraud or mistake, and such freedom of contract is desirable and is for the public good and the same should be permitted, encouraged and facilitated. Such contracts are valid and should be held to be binding and enforceable in the courts.

The leading case on this subject and the most recent decision of this Court as to the validity of patent royalty contracts is *Automatic Radio Manuafacturing Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 94 L. Ed. 1312, 70 S. Ct. 894 (1950), rehearing denied 340 U.S. 846, 95 L. Ed. 620, 71 S. Ct. 13, affirming (C.A. 1) 176 F. 2d 799, which

affirmed 77 F. Supp. 493. In that case, as here, the plaintiff Hazeltine Research, Inc. held numerous patents and the same expired or were adjudged invalid from time to time during the royalty contract period. (This fact is recognized by petitioners.) (Br. p. 33) Hazeltine entered into a written license-royalty contract with the defendant covering the right to use those patents, in consideration of an agreed royalty of a certain percentage of the defendant's total sales proceeds in its business, with an agreed annual minimum royalty of $10,000.00 per year, irrespective of whether or not it used the patents, and irrespective of their expiration dates. The defendant raised numerous alleged defenses, including those relied upon here. The case was considered so clear that the District Court entered a *summary judgment* in favor of the plaintiff without even going to trial, and this was *unanimously affirmed* by both the Court of Appeals and this Court.

In that case, *Hazeltine Research, Inc. v. Automatic Radio Manufacturing Co.*, 77 F. Supp. 493, the District Court said:

> "The contract involved here is essentially a grant by plaintiff of a privilege to defendant to use *any patent or patent application* which might be held by plaintiff in consideration of defendant's agreement to pay money. It is different from most license contracts in that payment of royalties does not depend on the use of plaintiff's patents by defendant, but is required *regardless of any use* by defendant. *This is a convenient mode of operation designed by the parties* to avoid the necessity of determining whether each type of defendant's product embodies any of the hundreds of patents which plaintiff controls. *There is nothing inherently illegal in such an arrangement. H-P-M Development Corporation v. Watson-Stillman Co.*, D.C. 71 F. Supp. 906, 912. *And non-use of the patents is not a defense to an action on the contract. . .*
>
> "Defendant's contention that this method of computa-

tion is a misuse of plaintiff's patents has no merit. This is not an attempt by plaintiff to extend its monopoly to and collect royalties on unpatented articles. (see *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502. . .), but *a convenient mode of computing the cost to defendant for the privilege of using the patents* should defendant desire to make such use. Even where the license contract calls for royalties only when the patent is used, the amount of royalties can be measured by the total price of apparatus embodying unpatented as well as patented items. (Citing cases) . . .

"The contract represents, on its face, a legitimate business bargain, and is in no way oppressive or unconscionable. . . .

"Defendant thus gets, by the contract, what it bargained for, namely *the right to use* whatever patents are available for use in plaintiff's large collection. It cannot complain that there is a failure of consideration if a particular patent has been invalidated even though it be the only patent he desired to use.

"Defendant has made an extensive argument to the effect that the restriction on use which is imposed by the license notice required by Article VI of the contract is illegal in that it constitutes an attempt to extend the monopoly of the patent beyond its legitimate scope; . . . As between the licensor and the licensee, the former can certainly restrict the licensee to manufacture and sales for limited use. *General Talking Pictures Corporation v. Western Electric Co., supra.* Even if the restriction imposed on a purchaser from the licensee should be invalid, *there is no reason for permitting the licensee to escape its contract obligations thereby.*"

In *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, (C.A. 1) 176 F. 2d 799, Chief Judge Magruder, speaking for the Court said:

"Appellant has advanced a variety of defenses to sustain the proposition that Hazeltine has so misused the monopoly of its patent grants as to have disentitled itself to any relief under the present complaint. . . .

"We must conclude from the decision in the *General Talking Pictures* case that a license agreement is not necessarily invalid because the licensee is granted a restricted right to make and vend a patented apparatus for use limited to a particular, described field, and is required by the agreement to affix to the licensed apparatus a notice of restricted use. . . .

"The district court correctly ruled that, even assuming arguendo that Hazeltine was engaged in an unlawful scheme to maintain a monopoly, the license contract in suit was not an integral part of it; that the license agreement, being itself a valid contract, will not be rendered unenforceable by collateral activities of the plaintiff in violation of the antitrust laws. 2 *Restatement*, Contracts sec. 1661, Rev. Ed. 1937; 2 *Walker Patents*, sec. 409, Deller Ed. 1937. See also *Bruce's Juices, Inc. v. American Can Co.*, 1947, 330 U.S. 743, 754, 755-756, 67 S. Ct. 1015, 91 L. Ed. 1219. *Morton Salt Co. v. G. S. Suppiger Co.*, 1942, 314 U.S. 488, 62 S. Ct. 402, 86 L. Ed. 363, *is no authority for the proposition that a contract action for patent royalties may be bogged down by the defendant into a complicated and protracted trial of asserted collateral infractions of the anti-trust laws.* And see *Radio Corporation of America v. Majestic Distributors*, D. C. Conn. 1931, 53 F. 2d 641, 642-643, and cases cited. . . .

"Notwithstanding the failure of Automatic to attach the restrictive use notices, Hazeltine is entitled to insist upon the performance by Automatic of its contract obligation under Article IV to pay as royalties a percentage of the selling price of each complete apparatus of the types listed in Article III, Section 2, 'sold by Licensee during continuance of this license' . . ."

This Court in *Hazeltine* affirmed the judgment in favor of the plaintiff and held inapplicable the antitrust cases and the "tie-in" cases relied upon by the defendant therein and herein, and said:

> "It is insisted that the license agreement cannot be enforced because it is a *misuse of patents* to require the licensee to pay royalties based on its sales, even though none of the patents are used. Petitioner directs our attention to *the 'Tie-in' cases.* These cases have condemned schemes requiring the *purchase of unpatented goods for use with* patented apparatus or processes, prohibiting production or sale of competing goods, and conditioning the granting of a license under one patent upon the acceptance of another and different license. Petitioner apparently concedes that these cases *do not, on their facts, control the instant situation. It is obvious that they do not.* . . .
>
> "But petitioner urges that this case 'is identical in principle' with *the 'Tie-in' cases. . . The principle of those cases cannot be contorted to circumscribe the instant situation. This royalty provision does not create another monopoly;* it creates no restraint of competition beyond the legitimate grant of the patent. *The right to a patent includes the right to market the use of the patent at a reasonable return.* . . .
>
> "The licensing agreement in issue was characterized by the District Court as essentially a grant by Hazeltine to petitioner of a privilege to use any patent or future development of Hazeltine in consideration of the payment of royalties. *Payment for the privilege is required regardless of use of the patents.* The royalty provision of the licensing agreement was sustained by the District Court and the Court of Appeals on the theory that it was a *convenient mode of operation* designed by the parties to avoid the necessity of determining whether each type of petitioner's product embodies any of the numerous Hazeltine patents. . . The Court of Appeals reasoned that *since it would*

not be unlawful to agree to pay a fixed sum for the privilege to use patents, it was not unlawful to provide a variable consideration measured by a percentage of the licensee's sales for the same privilege. . . . Numerous District Courts which have had occasion to pass on the question have reached the same result on similar grounds, *and we are of like opinion.*

"The mere accumulation of patents, no matter how many, is not in and of itself illegal. . . We cannot say that payment of royalties according to an agreed percentage of the licensee's sales is unreasonable. Sound business judgment could indicate that such payment represents *the most convenient method* of fixing the business value of the privileges granted by the licensing agreement. . . . But as we have already indicated, there is in this royalty provision no inherent extension of the monopoly of the patent. Petitioner cannot complain because it must pay royalties whether it uses Hazeltine patents or not. *What it acquired by the agreement into which it entered was the privilege to use any or all of the patents and developments as it desired to use them. If it chooses to use none of them, it has nevertheless contracted to pay for the privilege of using existing patents plus any developments resulting from respondent's continous research.* We hold that in licensing the use of patents to one engaged in a related enterprise, *it is not per se a misuse of patents* to measure the consideration by a percentage of the licensee's sales. . . *There is no showing that the licensing agreement here or the practices under it were a misuse of patents or contrary to public policy.*"

We submit that the *Hazeltine* case is decisive of the present litigation in favor of respondent. If there is any inconsistency between *Scott* and *Hazeltine,* the latter, having been decided 5 years later, is of course controlling.

The legal principle is well settled that, in the absence

of a contrary agreement, a license contract expires when the licensed patent expires, but the parties may expressly contract to the contrary, and a royalty contract for a period expiring subsequent to the expiration of such licensed patent is valid and binding.

In *H-P-M Development Corp. v. Watson-Stillman Co.*, 71 F. Supp. 906, 913, the court said:

> "Defendant's objection that the provisions of the agreement exact a royalty to be paid upon patents of plaintiffs which have expired is without merit. . . . But even if this were so, parties have been held to have legally agreed to pay royalties upon expired patents under certain circumstances. *Pressed Steel Car Co. v. Union Pacific Ry.*, 2 Cir., 1920, 270 F. 518. Nor does this objection, taken together with the others raised by the defendant, at this stage of the proceedings herein compel the view that the whole contract forms a pattern or design to extend plaintiff's patent monopoly or suppress competition."

In *E. R. Squibb & Son v. Chemical Foundation*, (C.A. 2) 93 F. 2d 475, 477, (Judge Learned Hand being one of the concurring judges), the Court said:

> "There is a presumption that royalties are not to be paid after the expiration of a patent; *if the intention is to have them continue longer, the parties should phrase their contract in language from which such intention may fairly be inferred.*"

In 69 *C.J.S.* 780, sec. 252, the rule is stated as follows:

> "In the absence of an express provision on the subject, a license continues until the expiration of the original term of the patent but not beyond. *However an express stipulation in the contract as to the duration of the license will control.*"

In 69 *C.J.S.* 801-2, sec. 262, it is said:

"As a general rule, however, the terms of the contract control as to the time during which royalty payments are to be made. (Citing numerous cases). An agreement confirming the right to use a patent may lawfully provide for the annual payment of a fixed amount during the life of the agreement, and as discussed infra sec. 284, *nonuser by the licensee during any particular year does not render the agreement unenforceable.* In general where the terms of the license as fixed by the contract is the life of the patent, the obligation to pay royalties continues during such term, and as a general rule the liability for royalties continues during the life, and terminates at the expiration, of the patent, *although the parties may contract to the contrary.*"

In *Starke v. Manufacturers National Bank*, 174 F. Supp. 882, 884, affirmed on the same opinion (C.A. 6) 283 F. 2d 117, the court said:

"*Parties to a licensing agreement may provide that the agreement shall extend beyond the life of the patent. In the absence of such express provision*, a licensing agreement terminates with the expiration of the patent."

In *Tate v. Lewis*, 127 F. Supp. 105, 107, the court said:

"*Although a party may agree to pay royalties after the expiration of a particular patent*, there is a presumption that he did not so intend, and the obligation must be clearly and specifically expressed."

To the same effect see *Carter Products, Inc. v. Colgate-Palmolive Co.*, 164 F. Supp. 503, 525, affirmed (on other grounds; C. A. 4) 269 F. 2d 299.

In addition to the numerous federal cases herein cited and the text writers (Ellis, Walker-Deller, and C.J.S.) which definitely support our position, the several deci-

sions of the highest state courts which have considered the question are unanimously to the same effect.

We particularly request the Court to carefully read the decisions of the courts below herein, *Thys Co. v. Brulotte*, 62 Wn. 2d 284, 382 P. 2d 271 (R. 106-116) and the decision herein of the trial court, Judge Lloyd L. Wiehl (R. 82-89).

In *Six Star Lubricants Co. v. Morehouse*, 101 Colo. 491, 74 P. 2d 1239, 1242, the court said:

> "*There was no legal inhibition against a party contracting to pay royalty on a patented article or formula for a period beyond the date of the expiration of the patents.* 48 C. J. 277, sec. 451; *Mitchell v. Hawley*, 16 Wall. 544, 21 L. ed. 322; *Pressed Steel Car Co. v. Union P. R. R. Co.*, 2 Cir. 270 F. 518. . . Under these circumstances, we do not believe that we should declare, as a matter of law, that the contract of October 26, 1925, terminated upon the expiration of the patents. . . .
>
> "When the parties entered into the contract, they knew of the expiration dates of the patents, and, if defendant saw fit to contract for royalty beyond such a time, *it may not now complain of an anticipated condition brought about by operation of law.*"

In *Adams v. Dyer*, 129 Cal. App. 2d 160, 276 P. 2d 186, an action for declaratory relief which squarely presented this same legal question, the court reversed a judgment in favor of the licensee and held:

> "Under contract requiring licensees to pay royalties to licensors so long as meters were manufactured and sold by licensees, expiration of patent on meters did not end liability of licensees to pay royalties on meters manufactured." (Syll. 2)

The court said:

"The contract provides, 'Said payments shall continue so long as said Oil Weight Meters are manufactured and sold by the said parties of the first part or their assigns or successors in interest. . . .

"The appeal presents purely a matter of law, to-wit; the interpretation and construction of the contract dated April 26, 1947, and the determination as to whether or not the undisputed facts show any termination or ending of said contract.

"Although the patent to the Oil Weight Meter was referred to in the contract dated, as above noted, April 26, 1947, respondent argues that, "the patent expired on March 31, 1948, and thereafter was public property, and that anybody in the world could manufacture and sell or manufacture or sell the device without let or hindrance of any person whomsoever." . . .

"*Respondent's contention relating to the effect of the patent cannot be upheld. The patent and the expiration thereof are beside the issue and furnish no retreat for respondent. . . .*

"Respondent's contentions are without support in the record both as to the facts and as to the law, and the findings as contended by appellant are not supported by the evidence. The judgment is reversed."

The Washington decision herein was quoted, approved and followed in the very recent 1964 unanimous decision of the Supreme Court of Nebraska in *McLeod v. Crawford*, 176 Neb. 513, 126 N.W. 2d 663, 669-670. The court affirmed judgment for the plaintiff in an action to recover royalties under a license contract which extended after the expiration of the final patent involved on May 18, 1954. The defendant made the same contentions and cited the same cases as here. Chief Justice White, speaking for the court said:

"This retroactive attack on the expiration date of the patent amounts to no more than a claim that someone could have used the machine after May 1, 1954. There is no evidence that anyone did. To sum it up, the conduct of the defendants, *their acceptance of benefits, and their continued use* demonstrated conclusively that they themselves interpreted the contract squarely consistent with the interpretation and the reasons therefor set out in *Medd v. Boyd Wagner, Inc., supra* (133 F. Supp. 807 and other cases cited). . . .

"The restricted holding in *Ar-Tik Systems, Inc. v. Dairy Queen, Inc.*, supra (302 F. 2d 496) of illegality as to collection by the patent owner beyond patent term, seems to be *contrary to authority and the best reasoning, and has already been refused acceptance by the courts.* In that case the court noted that the general rule seemed to be to the contrary and cited to this effect. . . (citing authorities)"

Referring to the *Scott, Securit*, and *Ar-Tik* cases relied upon by defendants in both cases, the Nebraska court distinguished and refused to follow them, saying:

"They all involve the attempt to recreate a patent monopoly on completely expired patents, or an attempt to tie in a group of patents in violation of the principle of combinations in restraint of trade. . .

"The defendants either had actual or constructive notice of the expiration date of May 18, 1954. . . The defendants would have us believe that they had a right to buy and use the machines . . . and be completely free of their voluntarily assumed obligation under the contracts. All this because the patent . . . expired as a matter of public record on May 18, 1954. *Such a position is untenable*. . .

"From what has been said, these contracts are valid, enforceable agreements. They are not tainted with

> illegality. The defendants voluntarily measured their obligation. . . *No reason exists why they should not pay for the benefits they received and the obligations they caused themselves under the contracts.*"

In *Bettis Rubber Co. v. Kleaver,* 104 Cal. App. 2d 821, 233 P. 2d 82, the court quoted with approval *Squibb* and *Sproull* and said:

> "The law presumes that royalties are not to be paid after the expiration of a patent, *but the parties may contract to the contrary.*"

In *April Products, Inc. v. G. Schirmer, Inc.* 122 N. Y. S. 2d 888, a copyright case involving the same question, the court held in accord with our contention, saying:

> "Consideration for the obligation having existed when the contract was made, that consideration does not become nugatory or lose its effectiveness by the passage of time or by the fact that the record ownership of the copyrights after 28 years vested in a third party."

On appeal of the same case, 283 App. Div. 1037, 284 App. Div. 639. 131 N. Y. S. 2d 341. the court held to the same effect saying:

> "There can be no question that the Shuberts and the publisher could have agreed on any term for the payment of royalties. The period could have been less than the term of the copyright, for the term of the copyright, *or for a period extending beyond the term of the copyright. Indeed, the parties could have agreed upon a lump sum payment, or installments, or for royalties of indefinite duration,* in each case as consideration for the right to publish the musical selections, which right the Shuberts at the time had the power to extend."

In *April Products, Inc. v. G. Schirmer, Inc.*, 308 N.Y. 366, 126 N.E. 2d 283, 287, 69 A.L.R. 2d 1305, 1311 (1955) the New York Court of Appeals (although citing the Scott case as perhaps raising a question, and although reversing on other grounds) held to the same effect. Judge Fuld, speaking for the court said:

> "Our reading of the contract in suit . . . is re-enforced by *an established rule of construction applied in the analogous field of patent royalty agreements.*"

After quoting *Squibb* and citing *Tate* and *Dwight*, the court continued:

> "*The same rule should apply* to royalty agreements involving copyrighted literary property . . . The agreement may not, therefore, '*in the absence of express language*, not here present, be construed to require payment of royalties after the expiration of the underlying copyrights."

In *Warner-Lambert Pharmaceutical Co. v. John J. Reynolds, Inc.*, 178 Fed. Supp. 655, 664, affirmed *per curiam* on the same opinion (C. A. 2) 280 F. 2d 197, (although citing Scott as possibly raising a question) Judge Bryan held that pursuant to their 1885 contract summary judgment should be granted requiring the agreed payment for the right to manufacture and sell "Listerine" having a secret formula (although unpatented) even after a subsequent general disclosure, and that such liability continued indefinitely in the future. After referring to the *April* case, the court said:

> "The court therefore applied *the usual rule in patent and copyright cases* that a license agreement under a patent or copyright, *in the absence of express language to the contrary*, is construed to require the payment of royalties only until the expiration of the underlying grant. . . . Once a contract is supported by consideration, its terms are up to the parties. Whether the

consideration is adequate or not is no concern of the court. . . *The parties are free to fix their own terms,* and they have done so here."

As pointed out in footnote 11, page 506 of the *Ar-Tik* case (302 F. 2d 496):

"The English rule would also seem to permit such an agreement. *Siemens v. Taylor,* 9 R.P.C. 393 (1892); *Terrell and Shelley, Patents,* p. 234 (10th Ed. 1961 Shelley)."

See also to the same effect:

Eversharp, Inc. v. Fisher Pen Co., 204 F. Supp. 649; *Well Surveys, Inc. v. McCullough Tool Co.,* 199 F. Supp. 374, 395-6, 398; *Pressed Steel Car Co. v. Union Pacific Ry. Co.,* (C. A. 2) 270 Fed. 518, 525; *Dwight v. American Ore Reclamation Co.,* 44 F. Supp. 396, 398; *Zajicek v. Koolvent Metal Awning Corp.,* (C. A. 9) 283 F. 2d 127, certiorari denied 365 U.S. 859, 5 L. Ed. 2d 823, 81 S. Ct. 827; *Sproull v. Pratt & Whitney Co.,* (C. A. 2) 108 Fed. 963, 965; *Chicago Pneumatic Tool Co. v. Ziegler,* (C. A. 3) 151 F. 2d 784; *Hope Basket Co. v. Product Advancement Corp.,* (C. A. 6) 137 F. 2d 1008, 1011-2, certiorari denied 343 U.S. 833; 48 *C. J.* 271, 277, sec. 428, 451, and cases cited; *Ar-Tik Systems v. McCullough,* 133 F. Supp. 807; *Ellis, Patent Licenses,* (3 ed.) 118, sec. 98A and 128, sec. 109; *American Type Founders v. Lanston Monotype Mach. Co.,* (C. A. 3) 137 F. 2d 738; 2 *Walker, Patents* (Dellers Ed.) p. 1508, sec. 392 and 1961 Supp. p. 456 and 1963 Supp. p. 552, 555, 561; *Union County Trust Co. v Sun Chemical Corp.,* 163 F. Supp. 805, affirmed (C. A. 3) 257 F. 2d 810; *George W. Ashlock Co. v. Atlas-Pacific Engineering Co.,* 225 F. Supp. 205, 219-220; *Pearson, Inc. v. John Rust Co.,* (Ark.) 268 S.W. 2d 893, 897; *Shicca-Del Mac v. Millius Shoe Co.,* (C. A. 8) 145 F. 2d 289, 301.

Also as this Court said in *United States v. Masonite Corp.*, 316 U.S. 265, 86 L. Ed. 1461, 62 S. Ct. 1070:

> "The test has been whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article."

In the leading case of *United States v. General Electric Co.*, 272 U. S. 476, 71 L. Ed. 362, Chief Justice Taft, speaking for a unanimous Court said:

> "Conveying less than title to the patent or part of it, the patentee may grant a license to make, use and vend articles under the specifications of his patent *for any royalty or upon any condition the performance of which is reasonable* within the reward which the patentee by the grant of the patent is entitled to secure. . .
>
> "*We think he may do so provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly. . . .*
>
> "*The very object of these laws is monopoly* and the rule is with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal."

In *United States v. Univis Lens Co., Inc.*, 316 U.S. 241, 86 L. Ed. 1408, 62 S. Ct. 1088, Chief Justice Stone, speaking for this Court unanimously, clearly pointed out this fundamental distinction, saying:

> "*We have no question here of what other stipulations, for royalties or otherwise, might have been exacted*

as a part of the entire transaction, which do not seek to control the disposition of the patented article after the sale."

In *Pyrene Manufacturing Co. v. Urquhart*, 69 F. Supp. 555, 560, affirmed (C. A. 3) 175 F. 2d 408, certiorari denied 338 U.S. 826, 94 L. Ed. 502, 70 S. Ct. 73, Judge Kirkpatrick said:

> "*So-far as the royalty which the manufacturing licensees pay is concerned, the arrangement is not objectionable, since any convenient method of fixing a royalty fee may be adopted*, including using the price of unpatented articles sold with the equipment as a basis."

In *Stearns v. Tinker & Rasor*, (C. A. 9) 252 F. 2d 589, 604-5, cert. den. 350 U.S. 830, Chief Judge Stephens, speaking for the court quoted the *General Electric* case and said:

> "Stearns owns a patent on a particular device and is legally allowed to charge for the grant of a license an amount that will allow it to realize the reward to which, as the owner of the patent, it is entitled. . . .
>
> "To say that the mere amount of money due and payable for the grant of a license is subject to judicial review would render each and every agreement made subject to court approval. No cases have gone that far."

See also to the same effect: *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124, 83 L. Ed. 81; *U. S. v. General Electric Co.*, 82 F. Supp. 753, 776; *Eversharp v. Fisher Pen Co.*, 204 F. Supp. 649.

In *Thys v. State of Washington*, 31 Wn. 2d 739, 199 P. 2d 68, certiorari denied 337 U.S. 917, 93 L. Ed. 1727, 69 S. Ct. 1159, involving the same contract, the court held that these royalties were part of the legitimate reward of

Thys for his research as an inventor, and the same were properly considered a part of the purchase price and hence subject to the Washington state sales tax, and until full payment of the royalties the patentee had not received his lawful reward for the use or right to use the patented inventions.

Suppose that the royalty was a total agreed lump sum, such as $8,500.00, payable without interest in 17 equal annual installments, extending after the patent expiration dates. Or suppose that one year prior to the expiration of the patents, at the request of the machine purchaser the parties mutually agreed to an extension of time for payment of the balance of the royalties until one year subsequent to the last patent expiration date. Certainly such a plan would be lawful. The same should be true here.

For each year subsequent to 1956 (when numerous Thys patents were still in effect) until the expiration of their contracts *respondent recovered from each petitioner only the minimum annual royalty of $500.00 plus tax.* (R. 97-104).

We submit that this mutually convenient and satisfactory payment plan is entirely sound, equitable, and lawful, and petitioners should not be permitted to escape or evade their just contractual obligations thereunder. Petitioners, after having accepted the benefits of this arrangement, should not now be permitted at this late date to complain of "unclean hands" or alleged misuse caused by an *anticipated* condition brought on by operation of law.

In any event respondent would of course in all fairness at least be entitled to recover the royalties for the agreed period accrued up until the last final expiration date of all of the patents involved.

C. Misuse, if any, is not a defense in Royalty Contract Action at Law.

The patent misuse doctrine is not based on statute, but arises from the decisions of this Court. The same is an application of the "unclean hands" equitable maxim and is applicable only to equity actions, such as patent infringement injunction suits. Consequently misuse, even if it exists, is not a defense in an action at law of this nature to recover merely a money judgment on a royalty contract.

As this court said in *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488, 86 L. Ed. 363, 62 S. Ct. 402:

> "The question we must decide is . . . whether a *court of equity* will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article. . . . The use of it to suppress competition in the sale of an unpatented article may deprive the patentee *of the aid of a court of equity to restrain an alleged infringement* by one who is a competitor. . . . *Equity may rightly withhold its assistance* from such a use of the patent by declining to entertain *a suit for infringement*."

In *Eakins v. Auto Arc-Weld Manufacturing Co.*, (Ohio) 175 N.E. 2d 221, 236, the court said:

> *"The defense of 'unclean hands' is not maintainable in a legal action on the contract for royalties. . .* This defense does not lie."

See also to the same effect: *Keystone Trailer Co. v. General Excavator Co.*, 290 U.S. 240, 244, 78 L. Ed. 293, 296, 54 S. Ct. 146; *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 814, 89 L. Ed. 1381, 1386, 65 S. Ct. 993; *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 88 L. Ed. 376, 64 S. Ct. 268; *Koolvent Metal Awning Corp. v. Bowden*, (C. A. 8) 205 F. 2d 209, 214; *Marvel Specialty Co. v. Bell Hosiery Mills, Inc.*, 216 F. Supp. 824, 829; *Ford v.*

Buffalo Eagle Colliery Co., (C. A. 4) 122 F. 2d 555, 563; *Harvey v. Levine*, 204 F. Supp. 947, 959; *I. C. E. Corp. v. Armco Steel Corp.*, 201 F. Supp. 411, 414; *Revlon, Inc. v. Regal Pharmacy, Inc.*, 29 F.R.D. 169, 177.

D. No Antitrust Law Violation.

It is well settled that antitrust defenses in contract actions are not favored.

In *George Hantscho Co. v. Miehle-Goss-Dexter, Inc.*, 33 F.R.D. 332, 334, an action to recover on a patent license contract, Judge Palmieri said:

> "*Antitrust defenses to actions based on contracts are not favored by the courts*. . . Thus, even if the challenged provision would partake of illegality in an antitrust proceeding brought by the Government, their effect in an action between private parties for breach of contract. . . would not necessarily be to deny plaintiff any or all of the relief it seeks."

In *Kelley v. Kosuga*, 358 U.S. 516, 519, 3 L. Ed. 2d 475, 478, 79 S. Ct. 429, cited in the *Hantscho* case, Justice Brennan, speaking for this Court said:

> "The federal courts should not be quick to create a policy of non-enforcement of contracts beyond that which is clearly the requirement of the Sherman Act. . . . In any event where, as here, a lawful sale and a fair consideration constitutes an intelligible economic transaction in itself, we do not think it inappropriate or violative of the intent of the parties to give it effect even though it furnished the occasion for a restrictive agreement of the sort here in question."

See also Note in *27 U. Chi. L. Rev.* 758.

As this contention of petitioners is primarily grounded upon their first contention of alleged misuse through collection of so-called post-expiration royalties, we submit

that the same is completely unsound for the reasons hereinabove stated. In fact this antitrust contention under these undisputed facts is wholly fallacious and absurd. Clearly respondent has never had nor sought a monopoly on hop picking machines. Admittedly petitioners and other machine purchasers during the 1950's had been using these portable picking machines less and less and harvesting either all or a substantial part of their hops by the use of the newer, keenly competitive stationary hop picking machines. Under such circumstances it seems quite ridiculous for petitioners to assert that they or the public are injured by respondent's alleged monopoly, especially when their own admitted actions show that no such monopoly exists.

Moreover, respondent has never suppressed competition nor interfered in any manner with the use of any picking machines in the public domain. Respondent has merely insisted that the machine purchasers pay their agreed royalties in accordance with their contractual obligations. There has been no picking machine monopoly and no contract in unreasonable restraint of trade in interstate commerce. Consequently there has been no violation of the cited sections 1 or 2 of the Sherman Act nor any antitrust laws.

> "That *only those restraints upon interstate commerce which are unreasonable* are prohibited by the Sherman Law was the rule laid down by the opinion of this Court in the Standard Oil and Tobacco Cases."

U. S. v. Trenton Potteries Co., 273 U. S. 392, 71 L. Ed. 700, 47 S. Ct. 377, 50 A.L.R. 989.

Furthermore as held in *Thys v. State of Washington*, 31 Wn. 2d 739, 199 P. 2d 68, certiorari denied 337 U.S. 917, 93 L. Ed. 1727, 69 S. Ct. 1159, these machines were manufactured by Lindeman and sold in Washington, and respondent was not and is not engaged in interstate commerce.

Likewise 35 *U. S. C.* 154 is not applicable because respondent has never attempted to unlawfully extend the *monopoly* of a patent nor "*to exclude others* from making, using, or selling the invention" of a patent after its expiration. There was here no violation of the federal antitrust laws by respondent.

In *Cole v. Hughes Tool Co.,* (C. A. 10) 215 F. 2d 924, 936, cert. den. 348 U.S. 927, 99 L. Ed. 726, Chief Judge Philips, speaking for the court said:

> ". . . . The Sherman Act was not directed against one 'who happens by his skill and energy to command an innocent and legitimate monopoly of a business. One who gains a large portion of a market by manufacturing a better product and by furnishing better service to his customers, which constitutes legitimate competition, is not denounced by the Sherman Act.
>
> "The maintenance of a research department, the carrying on of intensive research, constant efforts to improve the manufactured products and to render better service to customers by a manufacturer are not condemned by sec. 1 and are not a violation of sec. 2 of the Sherman Act. That Act does not condemn business success, arising from quality and performance of a manufacturer's product."

See also: *North Drive-In Theatre Corp. v. Park-In Theatres, Inc.,* (C. A. 10) 248 F. 2d 232, 236; *Binks Manufacturing Co. v. Ransburg Electro-Coating Corp.,* (C. A. 7) 281 F. 2d 252, 258; *Lawlor v. National Screen Service Corp.,* (C. A. 3) 270 F. 2d 146, 154; *Radio Corporation of America v. Majestic Distributors,* 53 F. 2d 641, (cited with approval in *Hazeltine*).

Moreover, as stated in *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.,* (C. A. 1) 176 F. 2d 799, 805, *supra,* affirmed by this Court:

> "The district court correctly ruled that, even assuming *arguendo* that Hazeltine was engaged in an unlawful scheme to maintain a monopoly, the license contract in suit was not an integral part of it; that the license agreement, being itself a valid contract, will not be rendered unenforceable by collateral activities of the plaintiff in violation of the anti-trust laws. . . . Morton Salt Co. v. G. S. Suppiger Co., 1942, 314 U.S. 488. . . . *is no authority for the proposition that a contract for patent royalties may be bogged down by the defendant* into a complicated and protracted trial of asserted collateral infractions of the anti-trust laws."

See also to the same effect the authorities therein cited.

Petitioners overlook that this Court granted certiorari as to only questions 1 and 2 in their petition (p. 2; R. 116, 117) and *denied the same* as to question 3 which stated:

> "3. Whether it is a misuse or an antitrust violation to condition the grant of a license under one patent or group of patents on the acceptance of a license under a group of additional patents and pending applications."

Notwithstanding this, they have reargued question 3 at length, which we submit is entirely improper. As held by both courts below, there was here *no coercion nor unlawful mandatory* package licensing. It is undisputed that neither petitioners nor any other machine purchaser ever requested a license as to some but not all of respondent's patents. They wanted the right to use a certain patented portable hop picking machine and improvements thereof, and consequently *respondent, without any additional royalty charge, included, as in Hazeltine, the licensed right to use all patents which it had or might thereafter obtain.*

Petitioners rely upon the "tie-in" cases, but they were definitely distinguished and held inapplicable by this Court and the lower courts in *Hazeltine*. Factually it is

undisputed that respondent has never required petitioners nor others to use any unpatented materials in or with these machines. Respondent has not controlled nor restricted the use or operation of these machines or its competitors' machines in any manner whatever. Consequently the "tie-in" cases have no material bearing herein.

E. Petitioners' Authorities Are Clearly Distinguishable.

We have examined the cases cited by petitioners and find that all of them are clearly distinguishable on their facts from the instant case.

Petitioners repeatedly cite *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 90 L. Ed. 47, 66 S. Ct. 101, (a 6 to 2 decision which has been frequently criticized), but it was a suit to enjoin patent infringement and *did not involve any royalty contract at all.* Defendant had previously assigned to plaintiff the patent in suit. The Court merely held that the defendant assignor was not estopped by virtue of the assignment to defend a suit for infringement of the assigned patent on the ground that the patent was invalid and that the alleged infringing device was that of a prior art expired patent. Obviously no such question is involved herein. Petitioners add emphasis to the word "free" used therein, but manifestly that word has several meanings. As no question of royalties was involved therein, this Court in using the term clearly *was not referring to royalties* nor using it in the sense argued by petitioners of free from a *financial* standpoint. In such a patent infringement suit the expiration date of a patent obviously has a much greater significance than in an action to recover on a royalty contract. Respondent was not "withholding from the public" the right to use any expired patents, as in *Scott*, and did not "recapture any part of the former patent monopoly." *Scott* was cited 5 years later in the dissenting opinion in *Hazeltine*, and consequently was not overlooked. Petitioners' contention that *Scott* is decisive of the instant case is therefore wholly unfounded.

As well stated in *Reynolds Metal Co. v. Skinner*, (C. A. 6) 166 F. 2d 66, 73, certiorari denied, 334 U.S. 858, 92 L. Ed. 1778, 68 S. Ct. 1528:

> "The controversy involves not a question of infringement, but a question of *royalties due under a contract*. Technical considerations of patent law are therefore not controlling. . . . *The rules announced in infringement cases such as Scott Paper Co. v. Marcalus Mfg. Co., Inc., . . . have no bearing here.*"

American Securit Co. v. Shatterproof Glass Corp., (C. A. 3) 263 F. 2d 769, is likewise clearly distinguishable. It must be considered in the light of the unusual factual situation there presented. That case likewise was not an action to recover on a royalty contract, but was another suit to enjoin patent infringement. The court there referred to the "*aggravating hardship*" caused by the plaintiff's conduct. Plaintiff held 35 patents for glass manufacturing and claimed that defendant infringed 4 of them. Previously the government had sued plaintiff and others charging violation of the antitrust laws, and a *consent decree* had been previously entered therein, which among other things required issuance of licenses upon request. Defendant had requested a license pursuant thereto, but plaintiff arbitrarily refused to issue any license under any of the patents unless all of them were included in the license at an excessive royalty rate. Voluminous correspondence between the parties resulted and plaintiff stalled for four years in violation of the consent decree and never did give the defendant the requested license. The plaintiff literally "*compelled* a licensee to accept a package of patents or none at all." Here there were no such negotiations between the parties and no such mandatory requirements. It is true that the same contains a brief obiter dictum somewhat tending to support petitioners' present contention, but there is *no discussion and no citation of any authority holding either way* on the question, and the primary ground for the dismissal was compulsory package licensing. Moreover as pointed out by the trial court here-

in, the *Securit* doctrine should not apply where the license is obtained for a *single* definite machine *and improvements* thereto. (R. 86-89) Also at page 775 the court stated that *the "substantial issue presented"* therein was whether the *mandatory package licensing* was a violation of the consent decree and also a patent misuse.

Ar-Tik Systems, Inc. v. Dairy Queen, Inc., (C. A. 3) 302 F. 2d 496, decided by the same court in 1962 long after the expiration of these contracts, is the only case cited which somewhat tends to support petitioners' position. The contract there required royalty payments to continue "*during the life of the license*, regardless of the expiration of any patents." After citing a considerable number, but by no means all, of the authorities holding to the contrary, two of the judges held that such a provision was not enforceable. It will be noted that the provision was much more far-reaching than in the instant case. Circuit Judge McLaughlin dissented, and also District Judge Lord held to the contrary. Clearly the majority decision is contrary to the great weight of authority and to the better reasoning, and the same should not be followed.

In an interesting law review article discussing *Ar-Tik*, 31 Geo. Wash. L. Rev. 535, it is well said:

> "Despite the court's reliance on Scott and Securit, the principal case *apparently is the first* to apply the patent misuse doctrine to a contract extending royalty payments beyond the expiration of the patent, where such agreement was not coupled with a package licensing requirement."

We wish particularly to emphasize the final footnote 37 of this article which well states:

> "It would seem that in some situations *such an agreement might be justifiable as a convenient method of operation because of its extension of royalty payments*

over a period of time. Cf. *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950). Such a payment method also may be advantageous for tax reasons. But in the principal case, as testified to by the president of Ar-Tik Systems, *the royalties were payable indefinitely*. . . Thus it could not be considered merely a *convenient method of payment*."

Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp., 218 F. Supp. 1, likewise was not a royalty action, but merely the decision of the trial court in a patent infringement suit. Anything stated therein on this subject was pure dictum, as the court held that the patents were invalid and not infringed. The court did not mention any of the numerous authorities in our favor nor even *Ar-Tik* which cites them, but held that additional evidence would be necessary before a definite ruling could be made on the "unclean hands" defense. The case did not involve one single machine unit, as in this case, but numerous products and methods in the electronics field. The case is therefote clearly distinguishable. The court recognized this by stating at page 46:

> "This defense, which is one of unenforcibility, is immaterial if the court's conclusion as to invalidity is sound."

The case was affirmed in a short *per curiam* decision on the sole ground of invalidity of the patents. (327 F. 2d 497)

Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 11 L. Ed. 2d 661, 84 S. Ct. 784, and *Compco Corp. v. Day-Brite Lighting*, 376 U.S. 234, 11 L. Ed. 2d 669, 84 S. Ct. 779, companion cases, were suits for patent infringement and unfair competition and did not involve any royalty contract. There had been no expiration of a patent, and *no question of patent expiration was in any manner involved*. The lower courts *held the patents invalid*, and that issue was not reviewed by this Court. Consequently the

products involved, *never having been validly patented,* were at all times in the public domain. These cases are therefore clearly inapplicable.

Likewise *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 83 L. Ed. 73, and *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 41 L. Ed. 118, cited in *Sears, did not involve any royalty or license contract*. In both cases the Court merely held that, *in the absence of any such contract*, after all of the patents involved had expired, the patentee *could not enjoin* alleged infringement or use thereof on the theory of unfair competition, there being no deception or confusion of the public, and the "Singer" name being generic.

U. S. v. Paramount Pictures, Inc., 334 U.S. 131, 92 L. Ed. 1260, 68 S. Ct. 915, was a government antitrust injunction suit and involved copyrights of motion picture films. The Court held illegal the compulsory "block-booking" scheme whereby motion picture theatres *were required to exhibit and make additional payments for inferior films* in order to obtain the better quality desired films. Obviously no such factual situation is involved herein.

U. S. v. Loew's, Inc., 371 U.S. 38, 9 L. Ed. 2d 11, 83 S. Ct. 97, merely held *Paramount* applicable under the same facts to the television industry. It likewise was a government antitrust injunction suit relating to copyrights. None of these cases involved any claim for patent royalties.

Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680, 88 L. Ed. 396, 64 S. Ct. 278, and *Mercoid v. Mid-Continent Invest. Co.*, 320 U.S. 661, 88 L. Ed. 376, companion cases, also were patent infringement suits and not royalty contract actions. These were "tie-in" cases wherein the patentee required the purchase and use of unpatented materials, namely combustion stoker switches manufactured by it, in its patented heating systems. Respondent, however, has never required the use of un-

patented materials with these picking machines. Because of Mercoid, Congress later amended the patent statute. *Stearns v. Tinker & Rascor,* (C. A. 9) 252 F. 2d 589, 601, cert. den. 350 U.S. 830.

Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 61 L. Ed. 871, 37 S. Ct. 416, did not involve a claim for royalties at all and merely held that a patentee may not license another to manufacture and sell the patented motion picture exhibiting machine and *by a mere notice attached to it* limit use by the purchaser to certain unpatented films. However, the Court said:

> "The extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise *by special contract between the owner of a patent and the purchaser or licensee* is a question outside the patent law, and with it we are not here concerned."

In *Keeler v. Standard Folding Bed Co.,* 157 U.S. 659, 39 L. Ed. 848, 15 S. Ct. 738, cited in *Motion Pictures,* this Court said:

> "Whether a patentee may protect himself and his assignees *by special contracts brought home to the purchasers* is not a question before us, and upon which we express no opinion. It is however obvious that such a question would *arise as a question of contracts,* and not as one under the inherent meaning and effect of the patent laws."

Scapa Dryers, Inc. v. Abney Mills, (C. A. 5) 269 F. 2d 6, involved no question as to royalties whatever. The court construed an exclusive franchise contract and held that there was no intention of the parties thereunder that one of the parties, Hindle, should be *permanently excluded* from selling certain looms "beyond the time when *all of the patents* described in the agreement had expired".

In *Prestole Corp. v. Tinnerman Products, Inc.*, (C. A. 6) 271 F. 2d 146, the issue was not for what period of time royalties were collectable. The license contract prohibited the licensee from using the licensed patents in any device which had a "thread engaging portion as described in (three) certain patents," one of which had expired when the contract was entered into. The court merely held that *this prohibition of use* was illegal, as the expired patent was then part of the public domain. As correctly stated in the State Supreme Court opinion herein:

> "These cases do not involve the question of whether royalties can be collected after the expiration of a patent, but simply recognize the indubitable rule that the *monopoly* of a patent cannot be extended beyond the 17-year period." (*Italics the court's;* R. 111)

F. Public Policy Requires Freedom of Contract.

Here in a nutshell is the key solution of this entire problem:

Scott holds merely that it is against public policy and unlawful *to enjoin infringement or to prevent the actual use* of an invention after the expiration of all of the patents covering it. This was on the ground that the same would be an unlawful extension of the patent monopoly *by interference with the actual use* of an invention which was then in the public domain. This Court has never gone any further than this in any case cited by petitioners.

But here, after expiration of any of these patents, respondent *has never obtained any injunction nor prevented either petitioners or anyone from engaging in the actual use of the inventions nor in any manner interfered with such use,* nor even attempted to do so. Consequently *Scott* and the other decisions of this Court relied upon by petitioners are wholly inapplicable, and petitioners' position is groundless.

Certainly there is no magic quality of the clock striking

at the final patent expiration date which discharges, relieves, or justifies the machine purchasers in refusing and evading their just contractual obligations to pay their remaining unpaid belance of the agreed royalties which constitute the fair "reward of the inventor". This is particularly true where, as here and in *Hazeltine, the* royalty payment schedule was by previous agreement extended over a period of years as a mutually convenient financing arrangement for the benefit of the machine purchasers. That is all that respondent has recovered or is seeking, namely, money judgments for the unpaid balance of the agreed royalties, at least to the extent of the agreed annual minimum royalties after such final patent expiration date. There is no proof of any resulting injury to the public interest, and obviously there is no such injury. Clearly this is not against public policy and is not unlawful.

On the contrary *public policy favors and requires freedom of contract* with reference to the agreed extended period for the royalty payments as a mutual financing convenience.

Also (2) public policy requires that farmers should not be required to make their equipment payments earlier than they can financially afford. And we respectfully submit that this Court should not hold this illegal.

As well said by this Court in the leading case of *Twin City Pipe Line Co. v. Harding Glass Co.*, 283 U.S. 353, 356, 75 L. Ed. 1112, 1116, 51 S. Ct. 476, 83 A.L.R. 1168, citing numerous cases to the same effect:

> "The general rule is that *competent persons shall have the utmost liberty of contracting* and that their agreements voluntarily and fairly made shall be held valid and enforced in the courts. . . . The meaning of the phrase 'public policy' is vague and variable; courts have not defined it and there is no fixed rule by which to determine what contracts are repugnant to it. The

principle that contracts in contravention of public policy are not enforceable should be applied with caution and only in cases plainly within the reasons on which that doctrine rests. It is only because of the dominant public interest that one who, like respondent, has had the benefit of performance by the other party, will be permitted to avoid his own promise. . . . *It may not be held invalid in the absence of a clear showing that some definite public detriment will probably result from its performance.* . . . The glass company has failed to show that the contract has any tendency to injure the public, and no reason appears why it should not be enforced according to its terms."

This Court therefore overruled the public policy defense and did not merely allow damages but affirmed the district court's *injunction* against defendant purchasing gas from plaintiff's competitors in violation of their contract.

In *Steele v. Drummond*, 275 U.S. 199, 205, 72 L. Ed. 238, 240, 48 S. Ct. 53, this Court said:

> "And it is a matter of great public concern that freedom of contract be not lightly interfered with. . . . It is only in clear cases that contracts will be held void. The principle must be cautiously applied to guard against confusion and injustice. . . . *Detriment to the public interest will not be presumed where nothing sinister or improper is done or contemplated.*"

In *Baltimore and Ohio Railway Co. v. Voight*, 176 U.S. 498, 505, 44 L. Ed. 560, 564, 20 S. Ct. 385, cited with approval in both *Twin City* and *Steele*, this Court said:

> "At the same time it must not be forgotten that *the right of private contract is no small part of the liberty of the citizen and that the usual and most important*

function of the courts of justice is rather that they maintain and enforce contracts than to enable parties thereto to escape from their obligation on the pretext of public policy, unless it clearly appears that they contravene public right or the public welfare. *It was well said* by Sir George Jessel M. R. in *P. & M. Registering Co. v. Sampson*, L. R. 19 Eq. 465:

> "'It must not be forgotten that you are not to extend arbitrarily those rules which say that a given contract is void as being against public policy, because if there is one thing which more than another *public policy requires* it is that men of full age and competent understanding *shall have the utmost liberty of contracting*, and that their contracts, when entered into freely and voluntarily shall be held sacred, and shall be enforced by courts of justice. Therefore you have this *paramount public policy* to consider — that you are not lightly to interfere with this freedom of contract'."

In *A. C. Frost & Co. v. Coeur D'Alene Mines Corp.*, 312 U.S. 38, 44, 85 L. Ed. 500, 506, 61 S. Ct. 414, this Court quoted with approval *Twin City* and *Steele* and said:

> "If it definitely appears that enforcement of a contract will not be followed by injurious results, generally, at least, what the parties have agreed to ought not to be struck down."

See also to the same effect: *Muschany v. United States*, 324 U.S. 49, 66, 89 L. Ed. 744, 756; *Allgeyer v. State of Louisiana*, 165 U.S. 578, 589, 41 L. Ed. 832, 17 S. Ct. 427.

G. ANSWER TO AMICUS CURIAE BRIEF

As the foregoing brief was about to be sent to the printer, we are now unexpectedly in receipt of a copy of brief of the United States as amicus curiae. As the executive branch of the government is now rightly engaged in

a "war on poverty", and increasing its aid in agricultural financing, it is difficult to comprehend why it would be simultaneously attempting to curtail "our basic federal policy" of freedom of contract on the part of its citizens and to require farmers to make their equipment payments *at earlier dates* than most of them can financially afford.

The contentions of amicus curiae are substantially for the most part a repetition of those asserted in petitioners' brief. We shall, however, briefly again reply to them.

1. Its first contention apparently is that a patentee may not extend its patent *monopoly by enjoining infringement* of a patent and *excluding others from using* the invention after all of the patents have expired. We have never contended otherwise. However, no such issue is involved herein. Thys has never brought a patent infringement injunction suit involving any expired patent and has never sought to extend any monopoly nor to exclude anyone from using the invention as to any expired patent.

We shall not again discuss *Scott* and other cases, as those cited are fully distinguished hereinabove.

2-3. These two contentions relate to the same point and will therefore be discussed together. Thys owned 12 picking machine patents and also 7 additional patents which were subsequently issued by the U.S. Patent Office. Here, as in *Hazeltine*, in consideration of certain royalties, including an annual minimum royalty of $500.00, Thys licensed the *right to use any or all of these existing and future patents*. Clearly this was entirely lawful. Whether or not the licensees *actually used* all, or even any of them, was wholly immaterial. In any event, petitioners and the others *had the right to use* any or all of these existing and future patented inventions as to machine improvements, additions, and accessories, and all of them were readily

available for that purpose. It is true here, as in *Hazeltine*, as stated (p. 16):

> "The royalties were payable without regard to the number of the patents which the licensee used; indeed, they accrued even if none was used."

Their attempted distinction of that case is wholly groundless. There is not a scintilla of evidence that Thys was attempting to secure the benefits of a patent monopoly after the patents had expired. On the contrary respondent was merely *following a mutually "convenient method of fixing the business value of the privileges granted by the licensing agreement."*

It will be noted that the quotation (p. 11) from the trial court's decision (R. 87) related to an entirely different defense, namely, alleged mandatory package licensing, which was correctly held by both courts below to be wholly groundless and which is not even involved in this certiorari proceeding.

Amicus curiae, not having been a party, should perhaps be pardoned for a certain lack of familiarity with the facts. (For example the Charvet as well as the Brulotte action was commenced in 1959 rather than 1960.) (Br. p. 5; R. 10). We wish particularly to repeat and emphasise that *Thys has not recovered for any year subsequent to 1956 anything in excess of the agreed annual minimum royalty of $500.00* plus 4% tax. (R. 90, 95, 97, 99-101, 104). The contention that respondent's recovery was based on the amount of *actual use* of these machines subsequent to the expiration of any of these patents is therefore clearly erroneous.

Amicus curiae rightly concedes (p. 11, 12) that if the machine had been unpatented, the parties could have validly agreed for its sale on precisely these same terms. We submit that for the reasons hereinabove stated as long as when these contracts were executed, long before any

patent expiration date, the parties voluntarily desired and mutually agreed to this extension of the payment period as a practical financing convenience for their mutual benefit, there is nothing in either federal or state law, as held by the courts below, which renders the same illegal or against public policy, or which precludes giving effect to the voluntary mutual intention of the parties. There is no proof whatever herein of any lack of voluntary "realistic bargaining". The terms were not "severe", but were primarily for the benefit of the machine purchasers in giving them a longer time in which to complete their agreed payments. There was never any monopoly of hop picking machines nor any "exaction of royalties" at any time. It is undisputed that because of the *severe competition* of stationary machines, neither Thys nor anyone else has ever attempted to manufacture or sell a single new portable hop picking machine since 1947.

On the contrary to suggest that anyone in Thys' position would not have preferred — from a selfish standpoint, disregarding the best interests of the hop farmers — to have collected, if financially practicable, not only the full purchase price, but also the full amount of the royalties, within a 5 year or 10 year period after the original sale of the machines, would be entirely unrealistic.

As hereinabove discussed, and as held in *Hazeltine*, the "tie-in" cases are not applicable, as Thys never required the use of unpatented materials with these machines. For example, *Ethyl Gasoline Corp. v. United States*, 309 U.S. 463, was a government antitrust injunction suit and is clearly distinguishable. Ethyl unlawfully controlled resale prices and marketing practices of those who wished to sell Ethyl gasoline products and suppressed competition with reference thereto. No such situation is involved herein.

As well stated by the trial court in discussing this point:

"The defendants here knew or were charged with the knowledge of the expiration dates of the patents, but

nevertheless agreed to extend the royalty payments over a longer term than most of the patents, which arrangement was as much or more for their own benefit as for the plaintiff's benefit. It seems to me that they cannot now complain of unclean hands caused by an anticipated condition brought on by operation of law. A majority of the courts so hold." (citing cases; R. 89).

Also the Washington Supreme Court correctly stated:

"In this case, when the parties signed their agreements, the instruments showed on their faces that some of the patents would expire before the end of the period during which the payment of royalties was required. It was undoubtedly understood between them that *a 17-year period was a reasonable amount of time over which to spread the payments for the use of the patent. They agreed that the value of the right to use the patents embodied in the machines was at least $500 per year, for the remaining years of the royalty period. There is no legal or equitable reason why they should not be required to perfom their agreement.*" (R. 112).

Amicus curiae states (p. 14):

"If that were all the parties had done, *we agree that the respondent would not have gone beyond the proper scope* of its patent rights. For example, if the parties had agreed (1) that a fair price for the machine was $8,500, and (2) that such amount should be paid over a 17-year period at the annual rate of $500, *there would be no problem.*"

We submit that in essence under these facts *that is what the parties have agreed and have done,* and the same does not involve any illegal misuse of patents, and is not against public policy.

4. We are surprised at amicus curiae raising another objection *not argued by petitioners and not properly involved herein.* (p. 16, 17). The agreements provide that respondent's consent shall be obtained to a resale of the machines, *but that such consent shall not be unreasonably withheld.* Actually respondent *has never refused* to consent to a resale of any machine — and petitioners have never contended otherwise. The reason for this provision is obvious, namely, so that respondent will know who is responsible for future payment of the agreed royalties. There is not a scintilla of evidence that this has ever resulted in any difficulty of resale. Moreover there is no evidence that any manufacturer has ever even considered producing or selling portable machines, in view of the serious competition of stationary machines.

5. Furthermore contrary to the suggestion of amicus curiae (p. 17), we have always contended and now definitely contend that respondent has not been guilty of patent misuse and in any event would be at least entitled to recover royalties accruing up until the final expiration date of all of the patents involved. Any ruling to the contrary would, we submit, unlawfully deprive respondent of its valid vested contractual and property rights and would be against public policy.

CONCLUSION

For the foregoing reasons the judgment of the Supreme Court of Washington is clearly right and should be affirmed or the certiorari proceeding should be dismissed.

Respectfully submitted,

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